

ECONOMIC PULSE

A MONTHLY REPORT ON MARYLAND'S ECONOMY

AUGUST 2003

HIGHLIGHTS

Growth Continues in Maryland

In June, Maryland registered a job growth rate of 0.2 percent, the 11th highest in the nation. The state continues to outperform its neighbors.

U.S. in Jobless Recovery

The U.S. recorded a job loss rate of 0.4 percent over the past year. GDP and consumer spending growth are too weak to generate net new jobs.

Leisure and Hospitality

Maryland's leisure and hospitality sector is showing signs of a gradual recovery, with growth in jobs, tourist volume and related tax revenues.

Indexes Point to Growth

Maryland's coincident index shows relatively strong current growth, while the leading index points to continued growth in the coming months. The stock index increased after a long decline.

Summary

According to the National Bureau of Economic Research, the latest recession ended in November 2001. The nation is in the midst of what has been dubbed a "jobless recovery."

Maryland has fared somewhat better than the nation as a whole, with small but positive job growth during the past year and a half since the recession officially ended. The nation's GDP growth rate improved in the second quarter of 2003 and is expected to become stronger towards the end of the year. Job growth is expected to resume soon afterward, most likely in early 2004. Consumer spending remains strong; but the pace of the recovery hinges on the growth of business investment. Early indications are that business investment, especially in critical IT products, is beginning to rebound. Maryland has thus far outperformed the nation in job and income growth and is likely to stay slightly ahead in the coming months. Maryland's index of leading indicators suggests that this growth will continue in the coming months.

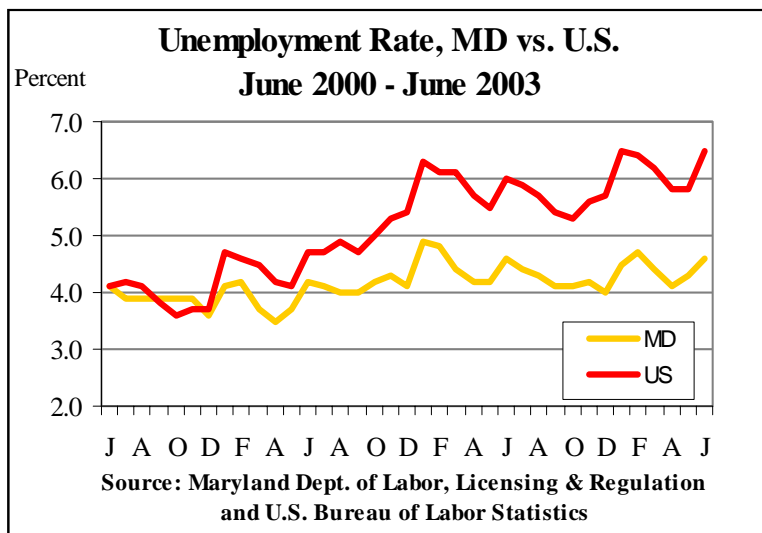
Unemployment Rate

At 4.6 percent in June, Maryland's unemployment rate was nearly two percentage points below the national average (not seasonally adjusted). While the state's unemployment rate remained unchanged over the year, the U.S. rate jumped from 6.0 percent a year ago to 6.5 percent in June 2003. Seasonally ad-

Unemployment Rates (Percent)

	Not Seasonally Adjusted		Seasonally Adjusted	
	MD	U.S.	MD	U.S.
Jun 2003	4.6	6.5	4.3	6.4
May 2003	4.3	5.8	4.5	6.1
Jun 2002	4.6	6.0	4.4	5.8

Source: U.S. Bureau of Labor Statistics



justed data show a similar picture. The state's unemployment rate (seasonally adjusted) fell to 4.3 percent in June from 4.5 percent in May and 4.4 percent a year ago. The U.S. unemployment rate stood at 6.4 percent in June, up from 6.1 percent in May and also up from 5.8 percent a year ago.

Robert L. Ehrlich, Jr.
Governor

Michael S. Steele
Lt. Governor

Aris Melissaratos
Secretary

Vernon J. Thompson
Deputy Secretary

Jobs and Sectors

Jobs

According to data from the U.S. Bureau of Labor Statistics (BLS) for June 2003, Maryland's job growth rate was a modest 0.2 percent. The state's job growth performance was far better than the national average, however, which stood at -0.4 percent in June. The nation's economy is reported to have lost 471,000 jobs (not seasonally adjusted) from June 2002 to June 2003, while Maryland showed a modest gain of 5,700 jobs.

Percent Change in Jobs June 2002 - June 2003

	<u>MD</u>	<u>U.S.</u>
Construction, Mining, Natural Resources	-0.7	1.0
Manufacturing	-3.4	-4.2
Trade, Transportation, Utilities	-1.0	-1.1
Information	-5.4	-3.9
Financial Activities	0.1	1.9
Professional and Business Services	0.9	-0.2
Education and Health Services	3.0	1.9
Leisure and Hospitality	1.6	1.0
Other Services	2.2	-0.5
Government	0.1	0.0
Total	0.2	-0.4

Job Growth Ranking

The state ranked 11th in job growth during June. Latest BLS data show that Maryland's job growth ranking has improved as the year has progressed. The state's ranking improved from 21st in January, 27th in February, and 26th in March. The ranking climbed to 10th in April and May and 11th in June. For all of 2002, the state ranked 7th in job growth.

Job growth rates (and ranking) for Maryland's neighboring states in June 2003 were: Virginia, 0.1 percent (14th); Delaware, -0.2 percent (25th); West Virginia -0.4 percent (26th); Pennsylvania, -0.5 percent (29th); and the District of Columbia, -0.7 percent (34th). Maryland remains one of the best-performing states along the Eastern seaboard.

Comparison with the U.S.

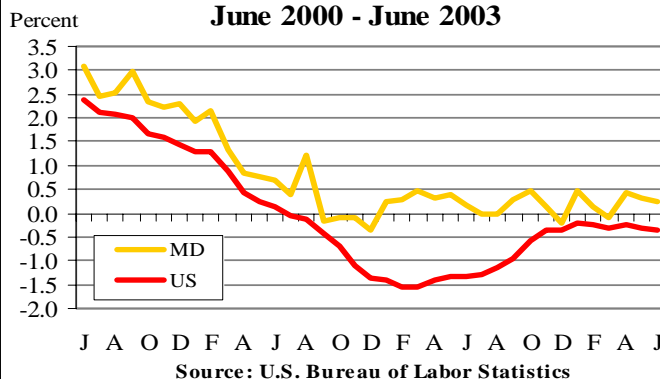
Job growth data show that the state's economy is fairly strong in comparison to the national economy. Maryland registered positive job growth during nine of the last 13 months; nationally, job growth was negative in each of those same months. The chart that follows shows job growth rates for

Maryland and the U.S. Growth, as measured by GDP, has been positive, thanks to continuing consumer and defense spending. Measured in jobs, however, U.S. growth continues to be negative. It is for this reason that the current business cycle is dubbed a "jobless recovery."

Maryland vs. U.S. Job Growth Rate (Percent Change, Year Ago)

<u>Month</u>	<u>MD</u>	<u>U.S.</u>
Jun-02	0.2	-1.3
Jul-02	0.0	-1.3
Aug-02	0.0	-1.2
Sep-02	0.3	-1.0
Oct-02	0.5	-0.6
Nov-02	0.1	-0.3
Dec-02	-0.2	-0.4
Jan-03	0.5	-0.2
Feb-03	0.1	-0.2
Mar-03	-0.1	-0.3
Apr-03	0.4	-0.2
May-03	0.3	-0.3
Jun-03	0.2	-0.4

Job Growth, MD vs. U.S. June 2000 - June 2003



Travel and Tourism

The rebound of the leisure and hospitality sector is noteworthy, both in Maryland and nationally. This sector — consisting of arts, entertainment, recreation, accommodation and food services — now accounts for 9.3 percent of total non-agricultural employment in Maryland (9.6 percent in the U.S.). Job growth in this sector has outpaced the national average in recent months. In June, this sector reported a 1.6 percent

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Jobs and Sectors (continued from page 2)

growth in Maryland, compared with a 1.0 percent growth in the U.S.

Hotel/motel occupancy rates jumped to near 74 percent from 70 percent a month ago, but remain slightly below last year's level. Amusement and admission tax revenues are up, while hotel/motel tax revenues fell slightly over the year. Hospitality and tourism numbers were mixed. At Baltimore/Washington International Airport, passenger volume was up 2.8 percent over the year, but cargo volume fell.

Housing

The housing industry continues to be a driver of the economy. Between June 2002 and June 2003, existing home sales rose 4.0 percent in Maryland and 11 percent in the U.S. Permits for new residential units jumped 44 percent in Maryland over the year and 10 percent in the U.S. With mortgage interest rates rising, this sector is expected to slow gradually in the coming months.

Trade and Retail

Within the trade sector, wholesale trade declined by 2.5 percent while retail trade grew by 0.4 percent. Notable among the job gainers in retail were: motor vehicle and parts dealers (up 2.9%), building materials and garden supply stores (up 4.8%), clothing stores (up 3.3%), and miscellaneous store retailers (up 5.1%). In recent months, consumer spending and retail sales have been driven by a variety of factors, including larger spendable income, increased tax refunds and increased cash flows from home refinancing.

Manufacturing

The manufacturing sector continues to suffer the effects of the past recession, as well as outsourcing of jobs — both to business services firms here and in overseas locations. This sector lost 3.4 percent of its job base in Maryland during the past year. Much of the job losses have been in computer and

electronics (-2,000), printing and related support activities (-1,200) and chemicals (-600). Maryland's food industry employment remains fairly stable. The U.S. lost 4.2 percent of its manufacturing jobs during the past year.

Despite continuing job losses, the manufacturing sector is gaining from productivity increases and increased work orders. Average weekly manufacturing hours and earnings rose in Maryland from June 2002 to June 2003 — by 0.7 percent and 1.3 percent, respectively — an indication that business and overtime hours are growing. In the U.S., earnings rose strongly, but average weekly hours fell from 40.9 to 40.5.

Other Industries

Service industries, with the exception of information, are leading the economic and job recovery, especially in Maryland. Job growth remains strong in Maryland in professional and business services (up 0.9%), education and health services (up 3.0%), leisure and hospitality (up 1.6%) and other services (up 2.2%).

In absolute terms, education and health services added 9,800 jobs during the June 2002-June 2003 period, followed by leisure and hospitality (3,600), professional and business services (3,400) and other services (2,600). These four sectors more than offset job losses in other sectors.

Among service industries, job losses remain significant in trade, transportation and utilities (-4,800 jobs) and information services (-2,900 jobs). Information services sector losses were mostly in telecommunications (-1,700).

Job losses in goods-producing sectors have diminished but remain significant. Manufacturing shed 5,400 jobs during the past year, while construction, mining and natural resources lost 1,200. Nationally, the construction, mining and natural resource sector added jobs, while the manufacturing sector shed 4.2 percent of its job base.

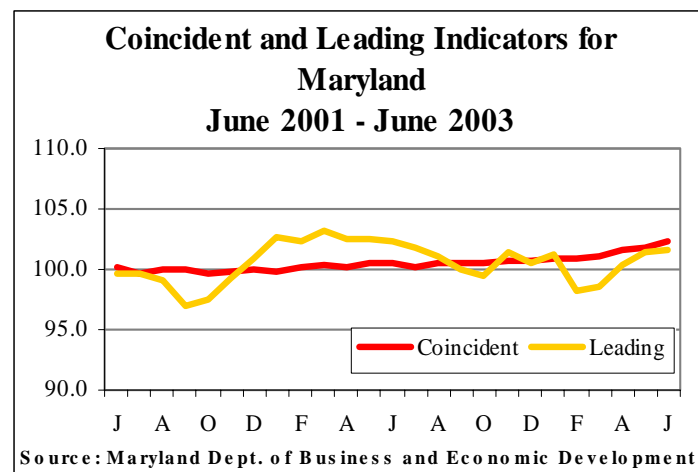
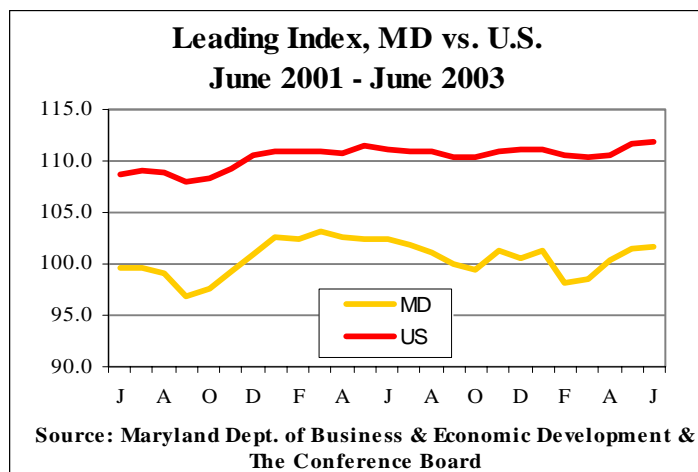
Other Economic Indicators

- Initial claims for unemployment insurance rose 10 percent in Maryland during the past year; in the U.S. claims jumped 16 percent.
- The *Baltimore Sun*'s help-wanted counts fell 22 percent in June from its level of a year ago.
- The Maryland stock index is now 6.8 percent above the level of a year ago. The national index remains 1.5 percent lower than last year.
- Permits for new residential construction jumped 44 percent in Maryland and rose 10 percent in the U.S. between June 2002 and June 2003.
- Existing home sales increased 4.0 percent in Maryland and 11 percent in the U.S. during the past year.
- New auto registrations in Maryland climbed by 6.1 percent in June from the same period a year ago. U.S. registrations fell by 2.7 percent.

Maryland Leading and Coincident Indices

The *Maryland index of leading indicators* provides an outlook for the economy over the coming six months. The index increased in June to 101.7, up from 101.5 in the previous month. The leading index, however, was 0.7 percent below the level of a year ago. Of the seven Maryland components, passenger traffic at BWI, new residential permits and the stock index provided a positive impact. At the national level, only the leading indicator contributed to a positive impact. In June, the U.S. leading index was up by 0.1 percent from the previous month, the third consecutive monthly increase. The indicator was up 0.5 percent from a year ago. While recent increases in the leading index provide positive signs, the gains have to be sustained — along with improvements in most components — before they can provide a clearer signal of the pace of economic growth.

The *coincident index* provides a reading on the state of current economic conditions in Maryland and is a tool for tracking the performance of the economy. The revised *coincident index* stood at 102.3 in June, up from 101.8 in the previous month. The indicator is up 1.7 percent from a year ago. The increase from a year ago has been somewhat stronger in the last three months than in the first three months of this year. The Maryland economy appears to be responding much better than the U.S. as a whole. In June, the U.S. coincident indicator was up 0.1 percent from the previous month and up 0.1 percent from the same period a year ago. The U.S. index has been relatively flat over the past six months and the increase from a year ago continues to slow. This suggests that U.S. economic activity remains weak.



Labor Force

Maryland's labor force and employment by place of residence are growing at a rate of about 1 percent per year. Initial claims for unemployment insurance jumped 10 percent in June, after two months of decline. In the U.S., claims were up nearly 16 percent in June but now remain below the critical 400,000-level. Between June 2002 and June 2003, the state's Temporary Cash Assistance (TCA) caseload rose slightly, while help-wanted counts were down 22 percent.

Labor Market Trends, June 2003 (Percent Change, June 2002 - June 2003)

	MD	U.S.
Growth of Civilian Labor Force	0.8	1.5
Employment by Place of Residence	0.9	0.9
Job Growth (by place of work)	0.2	-0.4
Temporary Cash Assistance – Caseload	1.2	–
Change in Initial UI Claims	10.4	15.7
Help-wanted Counts	-21.8	–
Unemployment Rate (current month, %)	4.6	6.5

FOCUS: Maryland Business Survey

The third *Maryland Business Survey* (MBS) — a joint effort by the Maryland Department of Labor, Licensing and Regulation (DLLR) and the Maryland Department of Business and Economic Development (DBED) — concerns the manufacturing industry in Maryland. The MBS typically focuses on a specific industry sector and is designed to assist the two agencies in analyzing the reasons behind expansion or contraction of employment and to provide some clue to future job growth. As a result, a portion of the survey results is expected to serve as a leading index of employment plans.

The MBS on manufacturing polled businesses throughout the entire state. This survey was sent to about 3,800 businesses. There were about 1,300 responses. The resulting response rate was roughly 34 percent.

The survey suggests that Maryland's manufacturing sector was contracting during the six-month period prior to May 2003. During that time, 249 establishments reported that they had eliminated positions, compared with 230 businesses that added employees.

Although expanding and contracting firms were nearly equal in strength, contracting firms cut more jobs than expanding firms added. Contracting firms cut 1,023 jobs, while establishments that expanded added 889 jobs, resulting in the net loss of 134 jobs during that six-month period. The remaining 835 companies (64% of firms responding) indicated no change in their employment numbers.

The survey also indicates that Maryland's manufacturing industry is showing signs of improvement. Between June and November of this year, 234 businesses say they plan to add employees, compared with only 72 companies that plan cutbacks. Between June and November, expanding firms will outnumber contracting firms by about 3 to 1, according to the respondents. However, a large majority of the responding firms (77%) indicate they expect no change in their employment numbers during that same period.

During the June-November 2003 period, expanding establishments expect to add 888 jobs while contracting businesses expect to reduce their workforce by only 388 jobs, resulting in a net addition of 500 jobs. When combined with the responses for the November 2002-April 2003 period, a net addition of 366 net new jobs is predicted for the year.

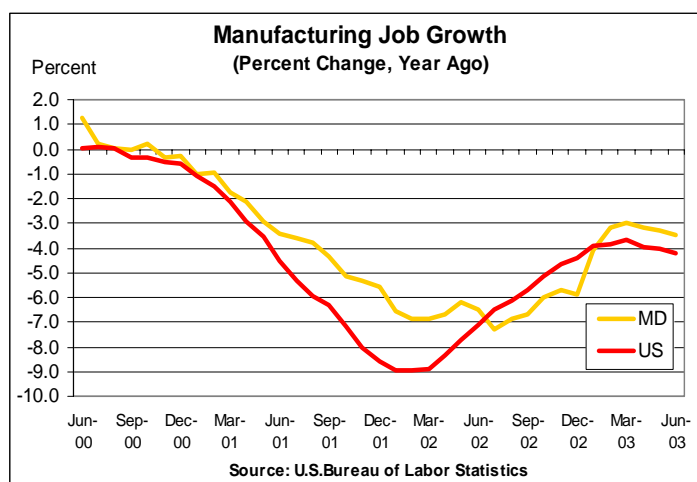
The survey provides some evidence that Maryland's manufacturing sector is on the verge of a rebound from the effects of the recession that has affected the nation beginning in

2001. The industry may be poised for modest gains in the second half of 2003. In particular, small businesses with fewer than 50 employees are likely to lead the turnaround.

A copy of the report can be obtained at:

www.choosemaryland.org/pressroom/publications/index.asp.

Item	Summary	
	Responses	Positions
Employment results for last 6 months	1,314	-134
No change	835	0
New positions	230	889
Positions cut	249	-1,023
Employment plans over next 6 months	1,314	500
No change	1,008	0
New positions	234	888
Positions to be cut	72	-388
12 month net change in positions		366
Reasons for changes in employment	Last 6 mo.	Next 6 mo.
Changes in firm's business costs	110	46
Innovation/new product/new service by firm	59	77
Automation/process improvement	39	38
Outsourcing positions	16	7
Less/more supply of raw materials for firm	18	18
Merger/acquisition by firm	11	7
Relocation by firm (except merger)	17	16
Less/more defense spending	31	34
Less/more export market demand for firm	25	19
Less/more out-of-state competition (domestic)	35	23
Less/more foreign competition	26	17
Availability of labor	46	23



Selected Monthly Economic Indicators

	Maryland					U.S.				
			Percent Change		Percent Change			Percent Change		Percent Change
	Jun 2003	May 2003	From Last Month	Jun 2002	From Last Year	Jun 2003	May 2003	From Last Month	Jun 2002	From Last Year
Selected Indicators										
Labor Market										
Labor Force (U.S. in Thousands)	2,968,086	2,921,331	1.6	2,945,017	0.8	148,117	146,067	1.4	145,940	1.5
Employment (U.S. in Thousands)	2,832,913	2,796,983	1.3	2,808,122	0.9	138,468	137,567	0.7	137,181	0.9
Unemployment Rate	4.6	4.3	7.0	4.6	0.0	6.5	5.8	12.1	6.0	8.3
Sun Help-Wanted Counts, Baltimore MSA	16,686	13,815	20.8	21,337	-21.8					
Initial Claims for Unemployment Insurance	23,082	19,858	16.2	20,913	10.4	1,704,609	1,575,923	8.2	1,473,379	15.7
TCA Caseload	28,918	29,146	-0.8	28,588	1.2					
TCA Cases Closed	2,781	2,723	2.1	3,212	-13.4					
Jobs and Sectors (Jobs in Thousands)										
Total Non-Agricultural Employment	2,516.9	2,500.9	0.6	2,511.2	0.2	130,952	130,641	0.2	131,423	-0.4
Construction, Mining & Natural Resources	170.3	167.0	2.0	171.5	-0.7	7,597	7,401	2.6	7,522	1.0
Manufacturing	153.5	153.3	0.1	158.9	-3.4	14,788	14,744	0.3	15,435	-4.2
Trade, Transportation, Utilities	462.5	459.6	0.6	467.3	-1.0	25,279	25,208	0.3	25,560	-1.1
Information	51.0	50.7	0.6	53.9	-5.4	3,302	3,290	0.4	3,437	-3.9
Financial Activities	152.2	150.4	1.2	152.0	0.1	8,036	7,972	0.8	7,887	1.9
Professional & Business Services	369.4	365.5	1.1	366.0	0.9	16,142	15,988	1.0	16,177	-0.2
Education & Health Services	340.1	339.8	0.1	330.3	3.0	16,339	16,578	-1.4	16,027	1.9
Leisure & Hospitality	234.8	221.8	5.9	231.2	1.6	12,580	12,221	2.9	12,453	1.0
Other Services	119.4	118.2	1.0	116.8	2.2	5,376	5,333	0.8	5,403	-0.5
Government	463.7	474.6	-2.3	463.3	0.1	21,513	21,906	-1.8	21,522	0.0
Average Weekly Earnings (\$)	617.80	619.88	-0.3	610.00	1.3	635.45	628.73	1.1	623.32	1.9
Average Weekly Hours	40.3	40.2	0.2	40.0	0.7	40.5	40.2	0.7	40.9	-1.0
Business and Consumer Markets										
BWI Cargo (Metric Tons)	16,984	18,481	-8.1	19,378	-12.4					
BWI Passengers (Millions)	1.83	1.75	4.6	1.78	2.8					
Electric Meters Installed, Commercial	161	150	7.3	137	17.5					
Electric Meters Installed, Residential	842	874	-3.7	836	0.7					
Electricity Sales, Commercial (Millions of kWh)	1.54	1.52	1.4	1.67	-7.6					
Electricity Sales, Residential (Millions of kWh)	1.03	0.72	43.0	1.17	-11.5					
Existing Home Sales (U.S. in Thousands)	9,202	8,014	14.8	8,844	4.0	597	559	6.8	538	11.0
New Auto Registration (U.S. seasonally adjusted)	38,573	38,472	0.3	36,348	6.1	1,315,610	1,397,170	-5.8	1,351,585	-2.7
New Residential Permits Authorized	3,548	2,914	21.8	2,470	43.6	172,066	167,081	3.0	156,025	10.3
Indexes										
Leading Index	101.7	101.5	0.2	102.3	-0.7	111.8	111.7	0.1	111.2	0.5
Help-Wanted Index	74.5	61.7	20.8	95.2	-21.8	38	35	8.6	47	-19.1
CPI	N/A	115.7	N/A	N/A	N/A	183.7	183.5	0.1	179.9	2.1
Stock Index	214.0	210.8	1.5	200.3	6.8	974.5	963.6	1.1	989.8	-1.5
Tourism										
Hotel/ Motel Occupancy Rate (%)	73.9	70.1	5.4	76.2	-3.0					
State Welcome Center Visitors	218,590	218,816	-0.1	252,019	-13.3					
Amusement & Admission Tax (Millions of Dollars)	5.66	4.68	21.1	5.17	9.5					
Hotel /Motel Sales Tax (Millions of Dollars)	4.32	3.58	20.6	4.43	-2.4					

Notes:



Robert L. Ehrlich, Jr., Governor
Michael S. Steele, Lt. Governor

Aris Melissaratos, Secretary, Department of Business and Economic Development
Vernon J. Thompson, Deputy Secretary, Department of Business and Economic Development
Rhonda Ray, Assistant Secretary, Office of Economic Policy and Legislation

Economic Pulse is published monthly by Pradeep Ganguly,
Office of Economic Policy and Legislation
Editors, Phyllis S. Cloud, Zina Stennett
Editorial Assistance, James R. Moody
Project Development, Fereidoon Shahrokh
Contributing Editors, Pradeep Ganguly, Roger Fujihara
Graphic Design, James R. Moody, Roger Fujihara
Distribution, Elver Bell, Zina Stennett

Please address any questions or comments to Pradeep Ganguly, 410-767-6398
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